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0029049

EARLY RESULTS FROM INDIANA ELECTRICITY BROKERING EXPERIMENT SHOW PROMISE

Electric Utility Week, Pg 3

February 9, 1987

JOURNAL CODE: EUW

ISSN: 0046-1695

WORD COUNT: 634

TEXT:

Preliminary results are positive for an intrastate energy brokering experiment conducted last year by Indiana utilities, and the Public Service Commission has recommended that many more economy energy transactions in 1987 be brought under the ongoing test program to determine if there is a net overall benefit to Indiana ratepayers. The energy brokering test program (EBTP) was established in response to a request from the state legislature in 1985 to the PSC to study the feasibility of a statewide power pooling system. As a type of loose power pooling arrangement, it focuses exclusively on economy energy transactions within the state.

The transactions are characterized by "split-the-savings" pricing, where the price for the purchased power is set halfway between the seller's and the buyer's marginal costs, and by prices that do not include demand charges. The brokering concept is structured so that each hour dispatchers at the participating utilities send into a centralized computer buy and sell quotations for specified quantities of economy energy. The brokering program then matches possible transaction combinations: highest purchase and lowest sale prices, second highest and next lowest prices, and so on until all quotes are matched or a minimum spread level is reached.

The computerized combinations are then displayed to all EBTP participants for possible exploitation. If a deal is not in fact struck by the identified parties, the reasons have to be recorded. Although economy energy exchanges have taken place for years, the number and magnitude of these transactions, as well as the potential for other transactions, has not been specifically investigated. The EBTP is therefore a way to measure energy savings that accrue through the voluntary interaction of the state's utilities.

According to a PSC report issued in late January, "Proposals to Determine the Feasibility of Implementing a Statewide System of Electrical Power Pooling with Economic Dispatch," results of last year's analysis for power transfers show savings of \$177,000 for the five utilities involved. More than 20,108 MWh were exchanged in 249 transactions.

However, because of malfunctioning equipment early in the year, and procedures and computer programs that are not fully refined, program participants believe the recorded energy exchange transactions were only about 10-20% of the total economic exchanges actually occurring among the

utilities in 1986. The PSC report notes that the EBTP has been steadily increasing its performance level since early 1986, and will gradually capture more of the economy energy transactions occurring in the state.

Although the EBTP seems to offer cost savings and greater reliability to system participants, it is still to be determined if net benefits outweigh total costs. The PSC report points out that as the ratio of actual to potential efficiency gains increases, total capital costs also increase. If these fixed costs rise in proportion to efficiency gains, then consumer benefits will be negligible. Looming as possible diseconomies are losses that may occur precisely because the power pooling arrangement is intrastate rather than interstate. Analyses may later reveal that it would be more economical for Indiana utilities to exchange economy power with out-of-state utilities.

Sulfur-dioxide emission levels may also render institutionalized energy brokering advantages inadequate. In Indiana, most electricity is by coal-fired generation. The marginal cost of producing electricity for generating units that do not have flue-gas desulfurization equipment is generally lower than energy from units having such equipment. Thus, units emitting SO₂ are, under the principles of economic energy transfer, called upon first to displace power from units with scrubbers. According to the PSC report, "this creates a dilemma of increasing SO₂ emissions in one area to achieve increased savings in the production of electricity on a statewide basis."

The five utilities involved in the program are Hoosier Energy Rural Electric Cooperative, Indianapolis Power & Light, Northern Indiana Public Service, Public Service of Indiana, and Southern Indiana Gas & Electric.

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Security Pacific Nears Starting Network For Trading Options on US Securities.

WALL STREET JOURNAL 3 STAR, EASTERN (PRINCETON, NJ) EDITION August 11, 1986 p. 81

Security Pacific National Bank will offer an off-exchange network for trading options on Treasury securities. Trading could start by mid-9/86, pending regulatory approval. The bank's network will consist of electronically linked video screens that will display price and volume quotations. Fees would be generated based on transaction volume. The network will allow traders in over-the-counter Treasury options to seek the best bid offer, much like exchanges. Currently in OTC Treasury options trading, traders contact securities dealers directly, without necessarily knowing other prices that may be available. Security Pacific's attempt to bring centralized trading to the \$2 bil/d OTC Treasury options market, which amounted to \$300-400 mil/d only a year ago, could face a rough reception even if approved by regulators. Exchanges that already trade Treasury options or options on futures are pushing for greater regulation of Security Pacific's quasi-exchange. At the same time, some major government securities dealers, who are the bank's biggest target audience, question the need for Security Pacific's services.

COMPANY:

*Security Pacific Natl Bank

PRODUCT: *Securities Dealers (6211000)

EVENT: *Services Data (36)

COUNTRY: *United States (1USA)